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SUBJECT: CYPRUS TO AUCTION OFF EXPLORATION RIGHTS FOR POSSIBLE
OFF-SHORE OIL AND GAS DEPOSITS

11. Summary: The Government of Cyprus intends to auction off drilling rights for possible off-shore deposits of oil and gas at the end of 2006 or beginning of 2007. The Norwegian company Petroleum Geo-Services (PGS) is preparing both a "2-D" and "3-D" analysis of 60,000 square kilometers of seabed located south and southwest of Cyprus. Interested U.S. companies can purchase this data by contacting the Cypriot Ministry of Commerce or PGS directly. Beicip Franlab, a subsidiary of the French Petroleum Institute (IPF) has been retained by the GoC as a consultant on this project. In 2003, the GoC and Egypt signed a treaty delimiting their exclusive economic zones. In 2006, they signed a second agreement detailing how the profits from any deposits straddling the demarcation line would be shared. In advance of the auctions, the GoC is preparing new legislation and draft production sharing agreements (PSA). According to the press, the depth of the Cypriot seabed is between 700 and 3,500 meters. Drillings in the nearby Egyptian seabed have found some oil and gas deposits, which have yet to be exploited. The GoC has been careful not to estimate the extent of the possible reserves. The press, however, has cited earlier unsubstantiated estimates that as much as six to eight billion barrels of oil and/or significant gas deposits may be available. End summary.

Auction planned for late 2006, early 2007

12. The Government of Cyprus (GoC) plans to auction off drilling rights for possible oil and gas deposits by the end of 2006 or the beginning of 2007, according to Commerce Ministry Energy Department Director Solon Kassinis. An area of 60,000 square meters will be divided into blocks and auctioned once the GoC has completed all the relevant legislation. Preliminary indications suggest that the blocks may measure 50x50 kilometers each. The GoC is also considering requiring companies to complete research drilling within the block within two years of signing an agreement.

13. From March to May, the Norwegian company Petroleum Geo-Services (PGS) conducted a seismic survey of the region from which it is preparing both a "2-D" and "3-D" analysis of the area. Interested companies can purchase this data by contacting Kassinis and/or PGS directly. PGS, however, can only sell the data to companies approved by the Commerce Ministry. The Ministry has retained Beicip Franlab, a subsidiary of the French Petroleum Institute (IPF), as its outside consultant on this project.

GoC Chooses to Use PSAs, Amend Existing Law

14. Before Cyprus begins the auctions, it plans to amend the "Hydrocarbon (Search, Research, and Exploitation) Law 99 (I) of 2004," which harmonized Cypriot legislation to EU norms. The new amendments will frame the legal, technical, commercial, environmental, and political terms on which the GoC will distribute licenses for the exploration and exploitation of oil and natural gas

deposits. In May, the GoC Council of Ministers decided that all licenses would be granted on the basis of Production Sharing Agreements (PSA), reportedly believing that this would be the best way to ensure maximum profits for the GoC while still retaining ownership rights. The GoC may choose to receive part of its profits in kind (oil or gas) as a way to reduce its dependence on imported energy products. Beicip Franlab is assisting the Commerce Ministry to prepare a draft PSA.

Agreement with Egypt to Share Joint Deposits

15. In preparation for the auctions, Cyprus has signed several agreements with Egypt designed to eliminate any potential problems between the two countries resulting from the exploration and exploitation of the suspected deposits. In March 2003, Cyprus and Egypt signed a treaty delimiting each other's exclusive economic zone. In May 2006, Cyprus and Egypt signed an agreement detailing how they would share the proceeds from any deposits that were found to straddle their exclusive economic zones. Cyprus is preparing similar agreements with Lebanon, Syria, and Israel.

16. The GoC has been very cautious not to estimate the extent of the possible deposits, noting only that preliminary signs have been promising. The press, however, has cited comments from a former Commerce Minister claiming that as much as six to eight billion barrels of oil may be available, apparently based on preliminary results of surveys from the adjoining Egyptian seabed. Deposits, should they exist, are expected to be very deep. According to the press, the Cypriot seabed ranges from 700 to 3,500 meters in depth.

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